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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 001682

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SUBJECT: GREEK ELECTIONS: KARAANLIS'S SUMMER "SURPRISE"

REF: ATHENS 1639

Classified By: Political Counselor Robin Quinvlle. Reason: 1.4 (b) a
nd (d).

1. (C) UMMARY: PM Karamanlis has made it official: general elections will be held on September 16. Karamanlis is running on New Democracy's economic reform record, calculating that criticism of last spring's bond scandal and this summer's forest fires won't affect his small but steady lead in the polls. Opposition PASOK leader Papandreou has brought in one of PASOK's old guard as his campaign strategist in an effort to ramp up his populist appeal. These elections are the first held under the revised election law of 2004, which may effect the size of the incoming government's majority. Karamanlis's main concern: blocking support for the small right-wing LAOS party. Votes for LAOS would be drawn from New Democracy, and -- should LAOS cross the 3 percent threshold and enter Parliament -- make passing legislative reforms more difficult. END SUMMARY.

WHY ELECTIONS NOW?

2. (C) Despite months of speculation, PM Karamanlis still managed a minor "August surprise" by deciding to hold general elections on September 16 (reftel). Pundits had predicted late September; Karamanlis' move filled island ferries with grumpy politicians and civil servants "forced" to return from vacation earlier than expected. Karamanlis calculated that, on the basis of private polls, the center-right New Democracy government's slight but constant lead over opposition socialist PASOK was holding. This despite criticism, over the summer, on two key issues: the government's handling of environmentally-devastating forest fires and on-going fallout from last spring's structured bonds scandal. Starting the 30-day campaign period during mid-August vacations effectively allows Karamanlis to reduce debate on these and other issues. For now, Karamanlis is running on his overall reform record, stressing economic progress and promising more.

FIRST POLL SUGGESTS HE'S RIGHT

3. (C) The first public pre-election poll, conducted by the GPO Institute for "Mega" TV, gave New Democracy 36.2 percent, against 34.6 percent favoring opposition PASOK. The poll was conducted after keynote speeches by PM Karamanlis and PASOK leader Papandreou the weekend of August 18-19. Karamanlis chose the northern city of Drama for his address, emphasizing the government's economic reform record: inflation falling, fiscal deficit below 3 percent, foreign investment capital returning, competitiveness and tourism increasing. Karamanlis pressed for a new electoral mandate now so the next budget could include further structural changes. At least for now, Karamanlis is running, almost exclusively, on his economic record.

4. (C) PASOK leader Papandreou, however, is attacking on precisely that front. He accused ND and Karamanlis of fostering scandal and corruption, "demolishing" public sector education and the state-supported health system, and of

"brutally taxing" the many so that the few might become richer. PASOK, he stated, was committed to a just redistribution of income. Pundits claimed Papandreou's rhetoric harked back to his father's populist style. No surprise; Papandreou recently reinstated Kostas Laliotis as his chief campaign strategist. Many moderate voters consider him a hard-line throwback to an earlier era. It is unclear whether Laliotis's fierce style will meld successfully with George Papandreou's low-key manner.

BUT THE RULES HAVE CHANGED SINCE 2004

15. (C) Both Karamanlis and Papandreou are competing, for the first time, under the 2004 electoral law -- introduced and ratified by the previous PASOK government. At that time, ND opposed the law, claiming its provisions for proportional representation decreased the strength of larger parties. 288 out of the 300 MPs are elected by direct ballot in the country's 57 electoral districts. Twelve seats are reserved for the "state ballot;" these slots allow the leaders of the two major parties to nominate persons of their own choosing. A political party (or individual independent candidate) must meet a minimum 3 percent threshold to enter parliament. Seat distribution is based on the total number of votes received by the parties that have met the 3 percent threshold; a complex apportionment formula means that it is possible for a party with 42 percent of the vote to form a single-party government -- though by a very slim margin. For Karamanlis, the law means that a narrow win could potentially give him a single-seat margin in Parliament. He is particularly worried about the possibility of the nationalist LAOS party crossing the 3 percent threshold; any votes LAOS gains would likely be at ND's expense.

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COMMENT

16. (C) So far, Greek-U.S. relations are not an issue in the campaign. But some developments have clear impact for U.S. interests. First, CHOD Chinofotis is resigning to take one of the Karamanlis-appointed "state ballot" slots on ND's list. He has been a key contact, working positively with us on many issues. Although his successor, General Grapsas, has a reputation as a quiet but firm "straight shooter," Chinofotis's departure is a loss. On the other hand, rumor has it Karamanlis might tap him to be the next Minister of Defense, which would be a net gain. Second, Development Minister Sioufas, helpful on Southern Corridor issues, is being mooted as the next Parliamentary President, where he could use his organizational skills to squeeze maximum support for Karamanlis's policies. Finally, LAOS's potential to make it over the 3 percent threshold threatens to harden ND's already negative stance on Macedonia. As the election moves forward, we will continue to emphasize to the GOG the importance of keeping its rhetoric on this issue low-key. But the more LAOS prods, the more difficult that will be.

COUNTRYMAN